Supreme Court, U.S.
FILED
OCT 20 1994
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(3)

No. 94-546

In The

Supreme Court of the United States

October Term, 1994

SUBAFILMS, LTD. and
THE HEARST CORPORATION,

Petitioners,

vs.

UNITED ARTISTS CORPORATION, MGM-PATHE COMMUNICATIONS CO. (FORMERLY KNOWN AS MGM/UA COMMUNICATIONS CO.), MGM/UA HOME VIDEO, INC., WARNER BROS., INC., and WARNER HOME VIDEO, INC.

Respondents.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

RESPONDENTS' BRIEF IN OPPOSITION

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33 pp

LIST OF RESPONDENTS' PARENT COMPANIES AND PARTIALLY OWNED SUBSIDIARIES
(Sup. Ct. Rule 29.1)

Respondent MGM/UA Home Video, Inc. (now known as MGM/UA Home Entertainment Inc.) is a wholly owned subsidiary of respondent Metro-Goldwyn-Mayer Inc. ("MGM") formerly MGM-Pathe Communications Co., and successor-in-interest of United Artists Corporation. MGM's parent company is MGM Group Holdings Corporation. MGM has no partially owned subsidiaries (referred to by Sup. Ct. Rule 29.1).

Respondents Warner Bros. and Warner Home Video (formerly known respectively as Warner Bros., Inc. and Warner Home Video, Inc.) are divisions of Time Warner Entertainment Company, L.P. ("TWE"), a Delaware limited partnership established on February 28, 1992. TWE's general partners are: American Television and Communications Corporation, Warner Communications, Inc., Warner Cable Communications, Inc., Memphis CATV, Inc., Capital Cablevision Systems, Inc., People's Cable Corporation and Time Warner Operations, Inc. TWE's limited partners are: U.S. West Multimedia Communications, Inc., Toshiba American Entertainment, Inc. and Itochu Entertainment, Inc.

TABLE OF CONTENTS

Page

I. OPINIONS BELOW 1

II. JURISDICTION 2

III. ADDITIONAL CONSTITUTIONAL PROVISIONS, STATUTES AND TREATIES INVOLVED 2

A. 17 U.S.C. § 505 2

B. 17 U.S.C. § 104(b)(4) 3

C. 17 U.S.C. § 101 3

IV. STATEMENT OF THE CASE 3

A. The Underlying Facts 3

B. Trial Proceedings 6

C. Appellate Proceedings 7

V. REASONS THE WRIT SHOULD BE DENIED ... 9

A. NO CONFLICT EXISTS BETWEEN THIS COURT'S *ARAMCO* AND *HARTFORD FIRE INSURANCE* DECISIONS THAT HAS ANY RELEVANCE TO THIS CASE 9

B. THE DECISION BELOW THAT AUTHORIZATION OF AN ACT OUTSIDE THE UNITED STATES WHICH ITSELF DOES NOT VIOLATE U.S. COPYRIGHT LAWS CANNOT CONSTITUTE CONTRIBUTORY INFRINGEMENT OF U.S. COPYRIGHT LAWS PRESENTS NO SPECIAL OR IMPORTANT ISSUE FOR THIS COURT ... 17

TABLE OF CONTENTS – Continued

Page

C. THIS CASE PRESENTS NO SPECIAL OR IMPORTANT REASON TO CLARIFY THIS COURT'S OPINION IN *FOGERTY v. FANTASY, INC.* REGARDING ATTORNEYS' FEES IN COPYRIGHT LITIGATION 22

VI. CONCLUSION 24

VII. RESPONDENTS' APPENDIX

July 26, 1994 Order in *Subafilms, Ltd. v. MGM-Pathe Communications* Nos. 91-56248, 91-56379, 91-56289 ..... 1a

TABLE OF AUTHORITIES

Page(s)

CASES:

Benz v. Compania Naviera Hidalgo, 353 U.S. 138, 1 L.Ed.2d 709, 77 S.Ct. 699 (1957) 12

Community for Creative Non-Violence v. Reid, 490 U.S. 730, 104 L.Ed.2d 811, 109 S.Ct. 2166 (1989) 19

E.E.O.C. v. Arabian American Oil Co., 499 U.S. 244, 111 S.Ct. 1227, 113 L.Ed.2d 274 (1991) 10, 11, 12, 13, 14

Fogerty v. Fantasy, Inc., 510 U.S. ___, 127 L.Ed.2d 455, 114 S.Ct. 1023 (1994) 9, 22, 23

Foley Bros., Inc. v. Filardo, 336 U.S. 281, 93 L.Ed. 680, 69 S.Ct. 575 (1949) 12

Goldstein v. California, 412 U.S. 546, 37 L.Ed.2d 163, 93 S.Ct. 2303 (1973) 14

Hartford Fire Insurance Company v. California, 509 U.S. ___, 125 L.Ed. 2d 612, 113 S.Ct. 2891 (1993) 10, 12, 13

Lauritzen v. Larsen, 345 U.S. 571, 97 L.Ed. 1254, 73 S.Ct. 921 (1953) 11, 12

Matsushita Electric Ind. Co. v. Zenith Radio Corp., 475 U.S. 574, 89 L.Ed.2d 538, 106 S.Ct. 1348 (1986) 12

Mills Music, Inc. v. Snyder, 469 U.S. 153, 83 L.Ed.2d 556, 105 S.Ct. 638 (1985) 18, 19

Nintendo of America, Inc. v. Aero Power Co., Ltd., 1994 U.S. App. Lexis 24117 (4th Cir. 9/6/94) 16

Peter Starr Production Co. v. Twin Continental Films, Inc., 783 F.2d 1440 (9th Cir. 1986) ..6, 7, 8, 15, 16, 17, 23

TABLE OF AUTHORITIES – Continued

Page(s)

Romero v. International Terminal Operating Co., 358 U.S. 354, 3 L.Ed.2d 368, 79 S.Ct. 468 (1959) 11, 12

Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417, 78 L.Ed.2d 574, 104 S.Ct. 774 (1984) 18, 19, 21

Steele v. Bulova Watch Co., 344 U.S. 280, 97 L.Ed. 319, 73 S.Ct. 252 (1952).....11, 12

Stewart v. Abend, 495 U.S. 207, 109 L.Ed.2d 184, 110 S.Ct. 1750 (1990)..... 15

Subafilms, Ltd. v. United Artists Corp., 24 F.3d 1088 (9th Cir. 1994)..... 2

Timberlane Lumber Co. v. Bank of America, 549 F.2d 597 (9th Cir. 1976)..... 12

United States v. Aluminum Co. of America, 148 F.2d 416 (2d Cir. 1945) 12

Universal City Studios, Inc. v. Sony Corp., 480 F.Supp. 429 (C.D. Cal. 1979) *reversed*, 659 F.2d 963 (9th Cir. 1981) *reversed sub nom., Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 78 L.Ed.2d 574, 104 S.Ct. 774 (1984)..... 21

CONSTITUTIONAL PROVISION:

U.S. Constitution, Article I, Section 8, clause 3 14

STATUTES AND RULES:

Copyright Act of 1790

1 Stat. 124 (1790) 13

Copyright Act of 1891

Act of 3 March 1891, Ch. 565, § 3, 26 Stat. 1107 13

TABLE OF AUTHORITIES – Continued

Page(s)

Copyright Act of 1976

17 U.S.C. § 101 ..... 3, 14, 18
17 U.S.C. § 104(b)(4) 3, 14
17 U.S.C. § 106 ..... 17, 18
17 U.S.C. § 204 18
17 U.S.C. § 501 17
17 U.S.C. § 505 2
28 U.S.C. § 1254(1) 2
35 U.S.C. § 271(c) 19
Federal Rule of Appellate Procedure 28(j) 9, 23
Federal Rule of Civil Procedure 44.1 15

TREATISES

2 P. Goldstein, *Copyright: Principles, Law and Practice* § 16.3 (1989) 9
1 M. & D. Nimmer, *Nimmer on Copyright* (1994)
§ 1.07 14
3 M. & D. Nimmer, *Nimmer on Copyrights* (1994)
§ 10.01 18
§ 10.10[B] 5
§ 12.04[A] 16, 19
§ 12.04[A][2][a]&[b] 21
§ 12.04[A][2][b] 19
§ 17.01[B] 13, 14

TABLE OF AUTHORITIES – Continued

Page(s)

§ 17.01[B][1][b] 16

§ 17.01[B][2][a] 16

§ 17.02 9

§ 17.03 15

§ 17.05 to -.13 ..... 15, 16

§ 17.10[B][2] 16

MISCELLANEOUS:

L. Amdur, *Copyright Law and Practice* (1936) 9

H. Ball, *Law of Copyright and Literary Property* (1944) 9

H. R. Rep. No. 94-1476, 94th Cong. 2d Sess. 61 (1976) 21

B. Kaplan, *An Unhurried View of Copyright* (1967) 13

W. Patry, *Latman's The Copyright Law* (6th ed. 1986) ..9, 14

Preliminary Draft For Revised U.S. Copyright Law And Discussions And Comments On The Draft, *Copyright Law Revision, Part 3*: House Comm. Print (Jud.) (1964) 20

Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill, *Copyright Law Revision, Part 6*: House Comm. Print (Jud.) 89th Cong. 1st Sess. (May 1965) 20

Respondents METRO-GOLDWYN-MAYER, INC. ("MGM"), (formerly known as MGM-Pathe Communications Co. and as United Artists Corporation), MGM/UA HOME ENTERTAINMENT, INC. ("MGM/UA"), (formerly known as MGM/UA Home Video, Inc.), WARNER BROS. ("WARNER") and WARNER HOME VIDEO ("WHV"), (formerly known respectively as Warner Bros., Inc. and Warner Home Video, Inc.) oppose the Petition For Writ Of Certiorari. Petitioners do not, and cannot, show any special or important reason for this Court to review the issue decided against them by the *en banc* panel of the United States Court of Appeals for the Ninth Circuit, that is, that Section 106 of the United States Copyright Act is not intended to have extraterritorial effect. Additionally, the *en banc* panel's vacation of an attorneys' fees award for further consideration by the three-judge panel of that Court (and ultimately by the District Court) presents no special or important issue for this Court's review.

I.

OPINIONS BELOW

The unreported memorandum of the three-judge panel of the Court of Appeals, Document No. 5 to the Petitioners' Appendix ("Pet. App."), affirmed the award of damages in the district court judgment only upon an application of U.S. copyright laws; the panel did not reach or decide the alternative ground for decision in the district court, a claim that defendants' activities in excess of the 1967 license also constituted a breach of contract resulting in the same damages. The eleven judge *en banc*

panel took note of that fact and remanded the case to the three-judge panel to determine what further action is appropriate. 24 F.3d 1088, 1099; Pet. App. 115-16.

On July 26, 1994, the three-judge panel remanded the case to the district court. *See* Respondents' Appendix at 1a-2a, *infra*. The district court has recently set the case for trial on February 7, 1995.

II.

JURISDICTION

This Court appears to have jurisdiction under 28 U.S.C. § 1254(1). However, if the district court reaffirms the breach of contract theory as an alternative ground to support the claim of damages for foreign distribution of the motion picture, this Court's review may become mooted.

III.

ADDITIONAL CONSTITUTIONAL PROVISIONS, STATUTES AND TREATIES INVOLVED

A. 17 U.S.C. § 505:

> In any civil action under this title, . . . the court may also award a reasonable attorney's fee to the prevailing party as part of the costs.

B. 17 U.S.C. § 104(b)(4):

The works specified by sections 102 and 103, when published, are subject to protection under this title if –

. . .

(4) the work is a Berne Convention work;

C. 17 U.S.C. § 101:

. . .

A work is a "Berne Convention work" if –

(2) the work was first published in a nation adhering to the Berne Convention, or was simultaneously first published in a nation adhering to the Berne Convention and in a foreign nation that does not adhere to the Berne Convention . . .

IV.

STATEMENT OF THE CASE

With the following exceptions, respondents accept petitioners' "Statement Of The Case".

A. The Underlying Facts

Although petitioner Subafilms, Ltd. ("Subafilms") and petitioner The Hearst Corporation ("Hearst") jointly obtained a United States copyright in the motion picture "Yellow Submarine" ("Picture") in 1968, as tenants-in-common, at trial they contended, and the Special Master

so found, that Hearst negotiated and entered into the 1967 Financing[1] and Distribution agreements with United Artists Corporation ("UA"), MGM's predecessor-in-interest, as an agent for an undisclosed principal, a joint venture (the "Joint Venture") created by petitioners solely for the making of the Picture. Pet. App. 6a to 11a & 36a to 37a: Master's Rpt. ¶¶ 12-30, 87-88.

Petitioners insisted at trial upon the "fiction" of a third entity (the "Joint Venture") because of a written representation made by Hearst as the Joint Venture's agent during the 1966 license negotiations that "it" could not grant "non-theatrical" distribution rights to UA under the Financing and Distribution Agreements because "it" did not own them. *Ibid.* At trial, petitioners were able to avoid liability for fraud or "reformation" of the 1967 contracts only because the Special Master found that Hearst's representation was "truthful", that it was the Joint Venture that contracted with UA, and that petitioners had only granted television and theatrical distribution rights to their "Joint Venture" at the time the Joint Venture entered into the licensing arrangement with UA. *Ibid.*

UA's negotiator was suspicious about Hearst's 1966 representation that "it" could not grant non-theatrical distribution rights so although he deleted the reference to "non-theatrical" rights from drafts of the 1967 Distribution Agreement he retained the language whereby Hearst granted *all* the distribution rights *it* had in the Picture, in

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[1] UA financed and became a 25% equity owner of the Picture, as well as the distributor under the Distribution Agreement.

case it was later determined that Hearst indeed had greater rights. This precaution by UA is described by petitioners as "bad faith", Pet. at 27-28. The Special Master only held that UA's drafting created an ambiguity to be construed against UA. Pet. App. 30a: Master's Rpt. ¶ 75.

Contrary to the Petition at 5, UA never acknowledged that it in fact only received theatrical and television distribution rights. In fact, the 1967 Distribution Agreement also expressly granted "future technology" rights. However, in 1978, UA was in doubt about the likely judicial construction of older licensing grants as they might pertain to the new technology of home video.[2] Additionally, even if the grant of rights was broad enough to cover videocassettes, new licenses might be required for the music in the Picture because music was typically acquired by the film producers under separate arrangements. Soon after several courts in 1982 and 1983 broadly interpreted old film distribution licenses to include home video rights,[3] and as soon as MGM (then the successor to UA) could obtain new licenses with respect to the music included in the Picture (which music rights petitioners did not own or control), MGM authorized the 1987 distribution of the Picture in home video formats.

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[2] The issue whether old film and television licenses were broad enough to include the rights to distribute videocassette versions for home use has been heavily litigated. *See* 3 M. & D. Nimmer, *Nimmer on Copyrights*, § 10.10[B] at 90-92, nn.14-14.1 (1994) ("*Nimmer*").

[3] *Ibid.*

B. Trial Proceedings.

Contrary to the statement in their Petition at 6, in 1988, when petitioners commenced the pending suit in the district court, they alleged violations only of United States copyright laws, not copyright laws of foreign countries. The case was tried by the Special Master under a Pretrial Conference Order that specified that petitioners were seeking recovery under the Copyright Act, not the laws of foreign countries.

Before the Special Master, respondents moved to dismiss petitioners' copyright claim regarding foreign distribution because of the failure to show any violation of the U.S. Copyright Act. The motion was denied expressly upon petitioners' argument that they only needed to show U.S.-based "authorization" of foreign distribution under section 106 of the 1976 Copyright Act, relying upon *Peter Starr Production Co. v. Twin Continental Films, Inc.*, 783 F.2d 1440 (9th Cir. 1986) (*"Peter Starr"*).

The Special Master found that the 1967 contracts were not intended to grant UA non-theatrical distribution rights (which rights he concluded would have encompassed the right of home video distribution if that technology had then existed). Alternatively, the Master found that even if UA had obtained such distribution rights, UA had only a ten year *fixed* term to distribute, until 1978. The Master rejected MGM's reliance upon the express provision in the Financing Agreement which gave UA a continuing but *contingent* right to distribute the Picture "notwithstanding" the termination of the fixed ten year term – until such time as UA or petitioners exercised a right of first refusal to purchase the other's equity in the

Picture. Pet. App. at 22a-30a: Master's Rpt. ¶¶ 52-57, 60-75.

Finding that the 1967 Distribution and Financing Agreements did not authorize the 1988 distribution, the Master concluded that the 1988 distribution infringed petitioners' U.S. copyright. Additionally, he found that the same Agreements in effect constituted a covenant by MGM not to use non-theatrical rights which the Joint Venture did not own at the time of licensing. Pet. App. 37a: Master's Rpt. ¶¶ 90-1.

The district court adopted the Special Master's findings and conclusions, including the alternative breach of contract theory to support the damage award, struck the Master's award of prejudgment interest and entered judgment for petitioners. Pet. App. 52a-65a.

C. Appellate Proceedings.

A three-judge panel of the Ninth Circuit affirmed the compensatory award of damages only upon the copyright infringement grounds, holding that it was bound by a prior Ninth Circuit panel's decision in *Peter Starr* to conclude that "mere authorization" within the United States of a foreign distribution of the Picture would constitute a violation of section 106 of the Copyright Act. Pet. App. 79a-80a. The three-judge panel did not reach or decide whether MGM's distribution in 1988 constituted a breach of contract affording an alternative basis for damages. Pet. App. 93a n.2.

The eleven-judge Ninth Circuit *en banc* panel overruled *Peter Starr*, concluding that the words "to authorize" under section 106 were intended to codify one aspect of the doctrine of contributory infringement. The panel further held that no contributory infringement could exist under U.S. law unless the act which was induced or authorized was itself an infringement of U.S. copyright law, and that wholly extraterritorial acts of infringement are not cognizable under the Copyright Act. Accordingly, the *en banc* panel determined there was no infringement of U.S. copyright law involved in the respondents' foreign distribution of videocassettes, based upon the evidence developed at trial.

For the first time, in Petitioners' Response to Defendants' Petition for a Rehearing *En Banc*, petitioners urged the *en banc* panel to consider alternative theories or to indulge inferences about possible activities occurring within the United States as a basis to support that portion of the copyright infringement award pertaining to foreign distribution. The *en banc* panel declined to do so. Petitioners also requested the *en banc* panel to adopt the breach of contract theory as an alternative basis to support the award of damages for foreign distribution. The *en banc* panel, just as the three-judge panel of that court, declined to do so. Pet. App. at 115a-116a. Instead, the *en banc* panel remanded all such questions to the three-judge panel, authorizing it to take whatever steps it thought would be appropriate. *Ibid.*

The Petition at 8 incorrectly states that the attorneys' fees issue was not before the *en banc* panel. MGM's Petition for Rehearing and Suggestion for Rehearing *En Banc*

concluded that if defendants were correct about the foreign distribution issue, the result should be a halving of the damages award, and a reconsideration of the attorneys' fee award. MGM Petition, filed 3/3/93, at 15. On March 16, 1994, after the February 24, 1994 oral argument before the *en banc* panel, MGM's counsel advised the *en banc* panel by letter, pursuant to Federal Rule of Appellate Procedure 28(j), about this Court's March 1, 1994 decision in *Fogerty v. Fantasy, Inc.*, 510 U.S. ___, 127 L.Ed.2d 455, 114 S.Ct. 1023 (1994).

V.

REASONS THE WRIT SHOULD BE DENIED

A. NO CONFLICT EXISTS BETWEEN THIS COURT'S *ARAMCO* AND *HARTFORD FIRE INSURANCE* DECISIONS THAT HAS ANY RELEVANCE TO THIS CASE.

As petitioners acknowledge, the *en banc* court below ruled that the Copyright Act of 1976 was not intended to be applied to acts of infringement that occur entirely outside the United States. In fact, the court of appeals relied upon an unbroken line of authority predating the 1909 Copyright Act, all holding that U.S. copyright laws are not intended to have extraterritorial effect. Pet. App. 97a & n.6, 105a-108a; *see also*, 3 *Nimmer* § 17.02; 2 P. Goldstein, *Copyright: Principles, Law and Practice* § 16.3 (1989); W. Patry, *Latman's The Copyright Law* at 263 (6th ed. 1986); H. Ball, *Law of Copyright and Literary Property* § 97 (1944); L. Amdur, *Copyright Law and Practice* § 15 at 210-11 (1936).

As further support for this proposition, the court below relied on this Court's decision in *E.E.O.C. v. Arabian American Oil Co.*, 499 U.S. 244, 111 S.Ct. 1227, 113 L.Ed.2d 274 (1991) ("*Aramco*"), holding that United States statutes will not be applied extraterritorially unless there is an express Congressional direction to extend the statute's protections to acts occurring in foreign countries. The court of appeals below found that the Copyright Act indicated no such Congressional intent generally, but in only one situation indicated that foreign activities might be relevant to finding a violation of the Copyright Act. Pet. App. at 107a-108a & n.11. The court of appeals determined that "mere authorization" within the U.S. of a foreign activity said to be infringing could not constitute a violation of the U.S. Copyright Act because the "authorization" referred to in section 106 was intended to codify a principle of contributory infringement, and the authorized act must itself be a violation of U.S. law for the contributory activity to constitute an infringement. Pet. App. at 102a-103a.

The Petition's discussion of *Aramco* and *Hartford Fire Insurance Company v. California*, 509 U.S. ___, 125 L.Ed.2d 612, 113 S.Ct. 2891 (1993) ("*Hartford*"), for the most part misconstrues those opinions and in any event makes no showing that the *Hartford* decision has any relevance to the issues decided below.

In *Aramco*, applying the basic principle that U.S. laws will not be applied extraterritorially unless there is Congressional authority to do so, the Court held that a Title VII employment discrimination suit could not be maintained based on an overseas termination of employment. *Aramco* explained that the issue is not whether Congress

has the power to apply American laws extraterritorially, but whether Congress has intended to exercise that power. 499 U.S. at 248. This determination is primarily a matter of statutory construction. *Ibid.* For example, in *Lauritzen v. Larsen*, 345 U.S. 571, 577-78, 97 L.Ed. 1254, 1264-65, 73 S.Ct. 921 (1953) (Jones Act), and *Steele v. Bulova Watch Co.*, 344 U.S. 280, 283-84, 97 L.Ed. 319, 323-24, 73 S.Ct. 252 (1952) (Lanham Act), this Court found evidence of such a Congressional intent to enact legislation with a broad extraterritorial reach.

Even when Congress' intent to enact legislation having an extraterritorial effect is ascertained, however, it must further be determined whether the facts of a particular case fall within the ambit of the extraterritorial conduct that Congress intended to reach. In *Lauritzen*, this Court held that the broad extraterritorial provisions of the Jones Act did not apply so as to give a Danish seaman a cause of action against a Danish shipowner for injuries sustained in the defendant's ship while it was moored in Havana. Six years later, in *Romero v. International Terminal Operating Co.*, 358 U.S. 354, 3 L.Ed.2d 368, 79 S.Ct. 468 (1959), this Court similarly held that neither the Jones Act nor general maritime law provided a remedy for a Spanish seaman injured on a Spanish vessel owned by a Spanish national, even though the injury occurred in U.S. territorial waters. By contrast, in *Steele*, this Court held that the extraterritorial provisions of the Lanham Act did regulate the conduct of the defendant, a U.S. citizen who operated a factory in Mexico making counterfeit watches.

Because the statutory schemes at issue in *Lauritzen*, *Romero* and *Steele* contained broad and far-reaching extraterritorial provisions, at issue were the *limits* of Congress'

intended grasp. Accordingly, the Court engaged in an interest-balancing approach, considering, among other things, issues of comity, international conflicts of law, and the relative interests of the nations involved. *See also Timberlane Lumber Co. v. Bank of America*, 549 F.2d 597 (9th Cir. 1976).

By contrast, in a case such as *Aramco* and this case, where the statutory scheme at issue was found to evidence a *lack* of extraterritorial intent by Congress, such interest-balancing is not necessary or appropriate. Where Congress has not chosen to exercise its extraterritorial prerogative, this Court has refrained from doing so on its own initiative. *See also Benz v. Compania Naviera Hidalgo*, 353 U.S. 138, 1 L.Ed.2d 709, 77 S.Ct. 699 (1957) (holding that Congress did not intend the Labor Management Relations Act of 1947 to have extraterritorial effect); *Foley Bros., Inc. v. Filardo*, 336 U.S. 281, 93 L.Ed. 680, 69 S.Ct. 575 (1949) (holding that Congress did not intend the federal Eight-Hour Law to have extraterritorial effect).

Hartford does not change this legal analysis because both the majority opinion written by Justice Souter and the dissenting opinion written by Justice Scalia *agree* that the U.S. antitrust laws were long ago determined by this Court and others to have broad extraterritorial effects. 125 L.Ed.2d at 638-39, 650; *see, e.g., Matsushita Electric Ind. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 582 n.6, 89 L.Ed.2d 538, 106 S.Ct. 1348 (1986); *United States v. Aluminum Co. of America*, 148 F.2d 416, 444 (2d Cir. 1945). The debate in *Hartford*, as in *Lauritzen, Romero* and *Steele*, concerned the *limits* intended by Congress on such extraterritorial reach.

The majority opinion in *Hartford* assumed without deciding that the extraterritorial impact of the antitrust laws might be limited in an appropriate case for reasons of "comity", but concluded that such international comity concerns would not bar application of the U.S. laws in *Hartford* where British law only permitted what U.S. law prohibited. 125 L.Ed.2d at 638-39. Justice Scalia wrote that "comity" should be applied as a factor in determining "legislative jurisdiction", that is, congressional intent about the extent of the law's reach. 125 L.Ed.2d at 650. He concluded that "comity" would proscribe application of U.S. law where a true conflict exists, which he found in *Hartford*. 125 L.Ed.2d at 649-654.

Contrary to the Petition's suggestion at 13, the *Hartford* majority says not a word about *Aramco* and Justice Scalia's comments about *Aramco*, 125 L.Ed.2d at 649-650, only confirmed the principle that Congressional intent governs extraterritorial application.

Petitioners boldly argue, for the first time, Pet. at 13-14, that the wording of the copyright clause of the Constitution which empowers Congress to secure to authors "the exclusive right to their . . . writings" *mandates* extraterritorial enforcement of U.S. copyright laws.[4]

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[4] Curiously, the First Congress was unaware of petitioners' constitutional interpretation. The first Copyright Act protected maps, charts, and books only of authors who were U.S. citizens or residents. 1 Stat. 124. United States copyright law did not protect any foreign works until 1891. Act of 3 March 1891, Ch. 565, § 3, 26 Stat. 1107; B. Kaplan, *An Unhurried View of Copyright*, 123-124 (1967) ("*Kaplan*"). Indeed, until 1891, the United States was a haven for the piracy of foreign works. 3 *Nimmer* § 17.01[B] at 17-12 to -13.

But, "exclusivity" does not dictate *worldwide* exclusivity. Elsewhere in the Constitution, where laws or actions were to have effects outside the country's borders, the draftsmen knew how to make such an intention express (*e.g.*, Commerce clause, U.S. Const., Art. I, § 8, cl. 3). *See Aramco*, 499 U.S. at 252. Moreover, the power to grant exclusive rights is not a mandate to do so. *Goldstein v. California*, 412 U.S. 546, 557, 560, 562, 37 L.Ed.2d 163, 93 S.Ct. 2303 (1973); 1 *Nimmer* § 1.07; *Latman* at 20.

It is important to note that petitioners have expanded the claim they presented below. They no longer seek an interpretation that a "mere authorization" made in the United States may be proscribed by U.S. copyright laws; the logic of their argument would require U.S. courts to apply U.S. copyright laws to alleged infringements of all section 106 rights throughout the world. The sole limitation would be each district court's weighing of a myriad of factors (*i.e.*, "interest-balancing") to determine whether in that case it would be appropriate to enforce U.S. laws concerning activities in Hong Kong, Singapore, London, Paris, Russia, etc.

Additionally, if petitioners' view were accepted, because the U.S. Copyright Act adopts the Berne Convention and its principle of "national treatment," 17 U.S.C. § 101 (definition of "Berne Convention work"), 17 U.S.C. § 104(b)(4),[5] citizens of every treaty state would be

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[5] "National treatment" under the Berne Convention requires that U.S. copyright law be applied to foreign authors as though they were U.S. citizens. 3 *Nimmer*, § 17.01[B] at 17-8 & n. 25.

entitled to enlist U.S. district courts in the adventure of enforcing U.S. laws in every treaty state.

The horribles paraded in the Petition at 15 were properly rejected by the court of appeals below. Pet. App. at 106a & n.10. The *Peter Starr* decision which the *en banc* court of appeals below overruled was only in effect since 1986. According to the Petition's logic, no American films, television or other entertainment programming could have been safely distributed throughout the world *before 1986* because the *Peter Starr* rule was not in effect. As the court below noted, Pet. App. at 106a & n.10, abundant remedies exist to solve real problems without bloating the reach of U.S. copyright laws.

Petitioners are wrong to argue that a separate suit must be filed in every country of the world. To the contrary, it is commonplace that the copyright laws of foreign countries may be determined and applied in U.S. state and federal courts. 3 *Nimmer*, § 17.03; Federal Rule of Civil Procedure (FRCP) 44.1. Petitioners *chose* not to invoke the laws of *any* country except those of the United States. Certainly petitioner Subafilms, a British company comprised entirely of British citizens, cannot seriously argue that it would be too great a burden for it to assert British law or the laws of the European Community.

Petitioners assert, without any foundation, that no possible conflicts of law exist. But, conflicts of laws abound regarding copyright. 3 *Nimmer*, §§ 17.05-17.13. For example, whereas continued distribution of a film in the U.S. might violate U.S. copyright law because of a peculiarity of our *two-term* copyright system, *Stewart v. Abend*, 495 U.S. 207, 109 L.Ed.2d 184, 110 S.Ct. 1750

(1990), such distribution would *not* constitute any infringement in *unitary-term* Berne countries. *See* 3 *Nimmer*, § 17.10[B][2] at 17-62 to -65. Even the possibility of a "mere authorization" rule of liability thus creates uncertainty. 3 *Nimmer*, § 12.04[A].

Although copying and distributing another's protected work is illegal in most countries, Pet. at 17, the eligibility for protection and the scope of protection may vary. For example, one of the reasons that the U.S. joined the Berne Convention is that works created outside Berne Convention countries would not be eligible for protection within Berne Convention countries unless they were simultaneously published in a Berne Convention country. 3 *Nimmer*, § 17.01[B][1][b] at 17-15 to -16, § 17.01[B][2][a] at 17-17. Some countries have shorter terms of protection. 3 *Nimmer*, § 17.05 to -.13.

Although in some instances it is presumed that foreign law is the same as U.S. law in the absence of proof to the contrary, Petition at 17, that rule has no application here because the Pre-Trial Conference Order specified that petitioners' copyright infringement claims were based only on U.S. copyright law. They repeated that reliance, especially upon the *Peter Starr* decision, when respondents moved for a dismissal upon the close of petitioners' case. MGM Reply re Pet. for Rehearing at 10-11. So did the Special Master. Pet. App. at 6a, 41a: ¶¶ 9.3, 99. *See* FRCP 44.1.

Nor is there any unjustified inconsistency, Pet. at 18, between the application of the Copyright Act and the Lanham Act. Fundamentally, the differences depend on a different Congressional intention. *See Nintendo of America*,

Inc. v. Aero Power Co., Ltd., 1994 U.S. App. Lexis 24117 (4th Cir. 9/6/94) at 7, n.5.

Thus, as petitioners acknowledge, Pet. at 18-19, unless this Court finds that the 1976 Congress intended to extend the territorial reach of the Copyright Act, application of petitioners' "interest-balancing" approach to set the outer limits on extraterritoriality is irrelevant.

B. THE DECISION BELOW THAT AUTHORIZATION OF AN ACT OUTSIDE THE UNITED STATES WHICH ITSELF DOES NOT VIOLATE U.S. COPYRIGHT LAWS CANNOT CONSTITUTE CONTRIBUTORY INFRINGEMENT OF U.S. COPYRIGHT LAWS PRESENTS NO SPECIAL OR IMPORTANT ISSUE FOR THIS COURT.

The *en banc* court below reached no unusual result in concluding that it is not contributory infringement under U.S. law to authorize an act, which act does not itself infringe the U.S. Copyright Act. The *Peter Starr* decision had to be overruled because it misread this Court's ruling in *Sony* to conclude that mere authorization of an activity could constitute contributory infringement without regard to whether the authorized activity violated U.S. copyright law.

The heart of petitioners' claim is that the words "to authorize" in section 106 created an independent, "direct act of infringement", without regard to the legality of the authorized activity under U.S. copyright laws. Pet. at 23.

Section 106 lists *the exclusive rights* of a copyright; section 501 states that "anyone who violates any of the

exclusive rights of the copyright owner as provided by sections 106 through 118," or of the author described in section 106A(a) or who imports copies or phonorecords into this country in violation of section 602 "is an infringer of the copyright or right of the author, as the case may be."

Contrary to the Petition at 21, the 1976 Copyright Act did not include the phrase "to authorize" in section 106 to effect any "significant change" in copyright law. The words "to authorize" do not expand upon the exclusive rights; it has always been understood that a copyright owner could authorize use by way of license, assignment or other means of granting consent. *See* 3 *Nimmer* § 10.01 *et seq.* Section 204 of the Copyright Act together with the definition of "transfer of copyright ownership" found in section 101 are consistent with that view. Thus the words "to authorize" in section 106 were not needed to confirm that copyright interests are transferrable or that their use may otherwise be authorized. Something more was intended.

Nor does section 106 or the phrase "to authorize" purport to broaden the statute's territorial reach. The 1976 Copyright Act was the culmination of over twenty years of massive work. *Mills Music, Inc. v. Snyder*, 469 U.S. 153, 159, 83 L.Ed.2d 556, 563, 105 S.Ct. 638 (1985). Thirty-four studies were commissioned by the Copyright Office on all aspects of U.S. copyright law, *ibid*, but none of them about the extraterritorial scope of the Act.

And, it is true that contributory infringement principles exist even absent express statutory reference. *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S.

417, 435, 78 L.Ed.2d 574, 588, 104 S.Ct. 774 (1984);[6] 3 *Nimmer*, § 12.04[A] at 12-66. Even before the 1976 Act, courts understood that contributory infringement could involve (a) authorization of infringing acts, or (b) providing the means to infringe. *Sony*, 464 U.S. at 434-42.

Although Congress' draftsmanship in including the phrase "to authorize" in describing exclusive rights thus creates ambiguity,[7] its legislative intentions[8] could not be clearer.

In 1963, at a meeting called in Washington, D.C. by the Register of Copyright to discuss an early preliminary draft of the revised law, Edward Sargoy initiated the language and rationale for the "to authorize" phrase in section 106:

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[6] This Court had no occasion to consider the effect of the phrase "to authorize" in *Sony* because a different species of contributory infringement – providing the means for infringement – was at issue. *Sony*, 464 U.S. at 438-39; 3 *Nimmer* § 12.04[A][2][b] at 12-74 to -83.

[7] *See* 3 *Nimmer* § 12.04[A] at 12-84 & n. 81. Congress could have been clearer about its intention if it had followed its practice under the Patent Act of adding a subsection to the infringement provision to define contributory infringement. *See* 35 U.S.C. § 271(c); *Sony*, 464 U.S. at 440.

[8] This Court has invariably invoked legislative history to interpret the 1976 Act. *See, e.g., Sony*, 464 U.S. at 448-56 & nn. 29-34, 40 (construing "fair use" under section 107); *Mills Music*, 469 U.S. at 170-178 & nn. 37-43 (construing the derivative work exception of section 304(a)); *Community for Creative Non-Violence v. Reid*, 490 U.S. 730, 743-51, 104 L.Ed.2d 811, 826-31, 109 S.Ct. 2166 (1989) (construing "employee" for work-for-hire purposes).

> I would be inclined, at the very start of the opening clause, to add an 'authorization' provision – something in the second clause of section 5 [later § 106] to the effect that: "copyright under this title shall consist cumulatively of the exclusive right to do or authorize the doing of any of the following". Perhaps our case law in this country makes contributory infringers liable. However, I do not see that it would do any harm to make that very clear in the statute.

Preliminary Draft For Revised U.S. Copyright Law And Discussions And Comments On The Draft, *Copyright Law Revision, Part 3*: House Comm. Print (Jud.) (1964) at 112. The Register then reported to Congress in 1965:

> Under the language of [draft] section 106 a copyright owner "has the exclusive rights to do and to authorize" any of the activities in the five numbered clauses of subsection (a). The right "to do" something is probably broad enough to include the right "to authorize" that the thing be done, but we have added the phrase "and to authorize" in order to avoid possible questions as to the liability of contributory infringers. One example cited was of a person who legally acquires an authorized print of a copyrighted motion picture but who then engages in the business of renting it to others for purposes of unauthorized public performance. There should be no doubt that this kind of activity constitutes infringement.

Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill, *Copyright Law Revision, Part 6*: House Comm. Print (Jud.) 89th Cong. 1st Sess. (May 1965). That statement of the purpose of the "to authorize" phrase was

continued into the 1976 House Report at the time of enactment:

> The exclusive rights accorded to a copyright owner under section 106 are "to do and to authorize" any of the activities specified in the five numbered clauses. Use of the phrase "to authorize" is intended to avoid any questions as to the liability of contributory infringers. For example, a person who lawfully acquires an authorized copy of a motion picture would be an infringer if he or she engages in the business of renting it to others for purposes of unauthorized public performance.

H. R. Rep. No. 94-1476, 94th Cong. 2d Sess. 61 (1976) (relevant portion).

Because the existence of contributory infringement depends upon the legality of the activity *under U.S. law* which was authorized or for which the defendant provided the means to infringe, *Sony*, 464 U.S. at 434-42,[9] the *en banc* court below correctly determined that authorization of foreign activity violated no U.S. copyright laws.

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[9] 3 *Nimmer*, § 12.04[A][2][a]&[b] at 12-72 to -83. In *Sony*, the focus was on the legality of the activity of U.S. television home viewers who used Sony's videocassette recorder machines. No *foreign* TV viewing or recording was at issue. *See Universal City Studios, Inc. v. Sony Corp.*, 480 F.Supp. 429, 440 (C.D. Cal. 1979), *rev'd*, 659 F.2d 963 (9th Cir. 1981), *rev'd sub nom.*, *Sony*, 464 U.S. 417.

C. THIS CASE PRESENTS NO SPECIAL OR IMPORTANT REASON TO CLARIFY THIS COURT'S OPINION IN *FOGERTY v. FANTASY, INC.* REGARDING ATTORNEYS' FEES IN COPYRIGHT LITIGATION.

The Special Master in this case awarded attorneys' fees to petitioners simply because they were the prevailing parties in the proceedings before him. Pet. App. at 41a: Report, 102. The Master made no finding of bad faith nor could he have since petitioners had stipulated at trial that MGM's counsel in 1988 could reasonably have construed the 1967 Distribution and Financing Agreements to authorize the 1988 distribution of videocassettes for home use.

The district court simply confirmed the Master's recommendations without any additional findings on this issue.

Because the attorneys' fee award in excess of $500,000 was based upon the assumption that the entire compensatory damage award was supported by the U.S. copyright laws, respondents' Petition for Rehearing *en banc* requested a vacation and reconsideration of the fee award if the *en banc* panel were to find, as it did, that *Peter Starr* did not provide a basis under U.S. copyright law to uphold one-half the damages award. After the February 24, 1994 oral argument before the *en banc* panel below and the March 1, 1994 decision of this Court in *Fogerty v. Fantasy, Inc,,* 510 U.S. ___, 127 L.Ed.2d 455, 114 S.Ct. 1023 (1994), respondents' counsel notified the *en banc* panel about the *Fogerty* decision by letter dated

March 16, 1994, pursuant to Federal Rule of Appellate Procedure 28(j).

The *en banc* panel's May 13, 1994 Opinion overruling *Peter Starr*, thus vacating any U.S. copyright law basis for one-half the $2.2 million compensatory damage award, also vacated the attorneys' fees award and remanded the entire matter to the three-judge panel for further proceedings. Pet. App. at 116. The *en banc* panel later refused petitioners' request for further clarification. Pet. App. at 117a-119a.

Since then, the three-judge panel has remanded all matters pertaining to the case, including respondents' request for attorneys' fees on the *en banc* petition and hearing, to the district court where the matter has now been set for trial on February 7, 1995. Presumably, that court will have to reconsider the issue of attorneys' fees after fully deciding the basis, if any, to uphold that portion of the compensatory damage award that relates to foreign distribution.

The district court might (1) award damages based on (a) the breach of contract theory, (b) petitioners' newly raised reliance on foreign copyright laws or (c) petitioners' newly raised U.S. copyright law theories or (2) award no recovery at all for the foreign distribution. At that point, the district court will also have to consider this Court's admonition in *Fogerty* that section 505 of the Copyright Act was not intended to invoke the British Rule that requires an award of attorneys' fees to the prevailing party as a matter of right. The district court will have to exercise its discretion to determine whether such award is appropriate.

In these circumstances, the vacation of the attorneys' fees award by the *en banc* panel of the court below presents no special or important issue to be resolved by this Court.

VI.

CONCLUSION

For the reasons set forth above, the Petition for Writ of Certiorari should be denied.

DATED: October 20, 1994

Respectfully submitted,

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APPENDIX

SUBAFILMS, LTD.; THE HEARST CORP.,
Plaintiffs-counter-defendants-Appellees,

v.

MGM-PATHE COMMUNICATIONS CO.,
fka MGM/UA Communications Co. and
as United Artists Corporation;
MGM/UA HOME VIDEO, INC.;
WARNER HOME VIDEO, INC.;
WARNER BROS. INC.;
Defendants-counter-claimants-Appellants.

No. 91-56248, 91-56379
D.C. No. CV-88-6626-JGD

SUBAFILMS, LTD.; THE HEARST CORP.,
Plaintiffs-Appellants,

v.

MGM-PATHE COMMUNICATIONS CO.,
fka MGM/UA COMMUNICATIONS CO.,
and as United Artists Corporation;
MGM/UA HOME VIDEO, INC.;
WARNER HOME VIDEO, INC.;
WARNER BROS. INC.,
Defendants-Appellants.

Nos. 91-56289
United States Court of Appeals
Ninth Circuit
(Filed July 26, 1994)

Before: Dorothy W. Nelson, Cynthia Holcomb Hall, and Pamela Ann Rymer, Circuit Judges.

This case is remanded to the district court for further proceedings consistent with this circuit's opinion in Subafilms, Ltd. v. MGM-Pathe Communications Co., Nos.

91-56248, 91-56379, 91-56289, slip op. 4903 (9th Cir. May 13, 1994) (en banc).